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SUBJECT: CENTRAL BANK AND AGRICULTURE MINISTRY CONFLICT
OVER FOOD IMPORTS

REF: BOGOTA 7

1. (SBU) SUMMARY. To counter inflation, the Colombian Central Bank has publicly urged the Ministry of Agriculture (MOA) to reduce agricultural tariffs and increase food product imports. The MOA states that they are receptive to imports, but do not believe tariff reductions are necessary amid a recent decline in commodity prices. Furthermore, MOA officials stressed to us that the Central Bank has neither the legal nor the political authority to involve itself in tariff related matters. The Ministry of Trade -- which does have authority on tariff issues -- told us that they have made no movement on the issue and are unlikely to do so without MOA support. Local agricultural leaders insist that increased imports would only harm the sector, threatening the employment of 11 million Colombians. For the meantime, the Central Bank appears to have sparked a lively debate, but it is unlikely the recommendation will take root. END SUMMARY.

Rising Food Prices Causing Inflation?

2. (SBU) Despite price reductions on certain food products in December -- the first such reduction in months -- and lower overall inflation expectations for 2009 (reftel), the Banco de la Republica (Central Bank) has publicly called in recent days for the MOA to increase food imports to counter the traditional new year spike in inflation. (NOTE: Colombian food prices traditionally rise rapidly in January-March due to a combination of weather, seasonal, and economic factors, generating a disproportionate amount of the annual inflation rate. END NOTE.) Andres Espinosa, the Senior Advisor to the Minister of Agriculture, told us that the Central Bank believes that reducing food price inflation is key to reducing overall inflation. He added that the objectives of the Central Bank are misplaced, and that now more than ever the Central Bank should be focused on promoting economic growth and production rather than inflation targets. He also highlighted that the commodity prices of many imported items such as corn, wheat and soybeans fell in December and will most likely continue to fall internationally if the price of oil remains low.

Imports Already Significant

3. (SBU) Espinosa reiterated that many of Colombia's most important food products already heavily depend upon imports of raw materials and that the situation is not going to change. Minister Arias confirmed the same, stating in the press that while there are no plans to adjust tariffs on any food products, Colombia would continue to be receptive to importing agricultural products in 2009. To reinforce that

message, Espinosa said that a special tariff-rate quota (TRQ) of rice of zero duty was created to meet demand and stabilize prices at the end of 2008. The Trade Ministry, the entity with authority on tariff issues, also told us that they had made no movement on the Central Bank's recommendation to further increase imports and would not do so without MOA support and guidance.

Local Producers Incensed

14. (SBU) Nevertheless, the president of the Colombian Agricultural Association, Rafael Mejia, stated publicly that he was appalled that the Central Bank was pushing for increased imports, as it directly threatened the livelihood of 11 million Colombians employed in the agricultural sector.

Rather than increasing imports, local experts state that the GOC should be concerned with helping producers in the flood affected areas, as it is still unknown as to how damaging last year's rains will be on production.

COMMENT: Why Is The Central Bank Even Involved?

15. (SBU) The Central Bank -- absent legal or political authority over tariff policy -- is laying the groundwork to shield itself from criticism from inflation hawks should, as expected, it continue to lower interest rates in 2009. Its efforts to generate the political will necessary to reduce agricultural tariffs will likely fall victim to the political punch enjoyed by this sensitive sector. The Trade Ministry

won't move on agricultural issues without the support of the MOA, which is adamantly opposed to what Espinosa described as a "ridiculous idea". It is still too early to tell if MOA policies will change as the financial crisis continues to unfold, but the Central Bank is likely fighting a losing battle.

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